



PROSPERITAS

SECOND QUARTER 2007

FEATURE: VANCOUVER ON THE RISE PT. II

COMMERCIAL MORTGAGE CASE STUDY

from the office of Eugen Klein



As a Vancouver resident, at least two things can be gained from travel abroad: first is the experience of a different world and second is the realization of how nice home can be. From my recent trips to Seattle, Toronto, New Orleans and Hawaii, from an investment standpoint at least, it is easy to see how the upside for investment real estate in 2007 still remains in the major Canadian markets.

Furthermore, secondary markets in British Columbia, particularly in the resort sectors, are up as much as 40 to 50 percent over 2006. New resort developments in Tofino and Revelstoke are leading the charge.

Feel free to contact us for all your investment real estate needs. ■



Vancouver ON THE RISE - PART II

A World Class Real Estate Market Hits Stride - Try Not To Trip

- Eugen Klein, B.Comm(UREC), CRES, ARM®, RI, FRI, CCIM

The Commercial Market

Retail rent jumps – office vacancy plummets

With all of the cranes hanging over the downtown Vancouver horizon, one might assume that there are plenty of new office structures on the rise with floors and floors of space up for grabs. On the contrary – the bulk of these structures are hotel and residential space. The true picture of the downtown commercial office market is this:

Office vacancy is at a 25 year low of a miniscule 1.5% - 2.5%

As a matter a fact, aside from the relatively small and almost totally leased Bental V development, there are almost no projects scheduled for completion over the medium term.

On the other hand – the surrounding Vancouver suburbs are still at relatively high office vacancy percentages, and offer reasonable rental rates. This will most likely shift in the near future, as space demand reverberates out of the downtown core, and commercial investors turn their focus, and dollars, outward.

Demand for retail space has also jumped this year in Vancouver's metropolitan areas, with larger chain brands willing to pay top class rents in some cases, and others moving to newer more economical areas on the rise. Case in point; note the large developments of the South Cambie area, undertaken by Canadian Tire, Best Buy, and Whole Foods. This area, although still growing, will see large traffic increases with the completion of the Canada Line – and mature into a busy urban community following 2010.

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The 'Professional Directory' is dedicated to a few of the extraordinary people who have contributed to the value of our service to our clients. I would like to share my good fortune of knowing them with you. Please feel free to convey my recommendation.

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(continued from page 1)

Traffic flow and transit

Getting there gets challenging

We've all experienced it lately. Extreme traffic in suburban commutes and around the city centre, and antiquated transit resources that pack passengers into aging buses like sardines. This is of course a result of increased density in both urban and suburban areas, and different traffic patterns arising as a result of the changes. As a result of these changes, we may even see a reverse in commuters, in that those investing in downtown condos may find that their employers have been forced to move offices out of the downtown area, and into the suburbs – creating the opposite effect to traditional traffic flows.

The Big Picture

Your markets in context

The overall landscape in all of Greater Vancouver's markets is clearly one of sustained growth and change up to, and past, 2010. Vancouver is clearly stepping on the stage with other world class cities, and the growing pains involved with getting there may be sometimes uncomfortable; but one thing can be certain – with the proper advice and foresight, investors in Vancouver's residential and commercial markets can still expect to see steady gains in one of the worlds most beautiful, exciting, expanding cities.

Interested in what's available for sale? Curious about specific opportunities for above average returns? Call the Eugen Klein team to find the level, asset class and area of investment that fits you. ■

This communication is not intended to induce a breach of already listed properties or businesses. All information must be verified by the purchaser. Images are representative only.

Commercial Mortgage

A Case Study

Situation:

The transaction involved the refinancing of an industrial property in Burnaby, which had an appraised value of \$4.9 million. The 40,000sf building was about 30 years old, and was leased by a subsidiary of an eastern based, public company. The 2-storey property, which consisted of a warehouse and second floor corporate offices, was utilized as a distribution centre for western Canada for the tenant company. The existing mortgage financing in the amount of approximately \$2.4 million with a well known financial institution was coming up for renewal, and the building owner wanted to test the refinancing market and engaged our company for assistance. The loan-to-value ratio for the maturing mortgage was 49%, but the client wished to obtain up to \$3 million (61% LTV) for partial equity release.

Strengths & Weaknesses:

Industrial properties have been in demand in the Lower Mainland in recent years, demonstrated by very low vacancy rates and declining investment yields (cap rates). Consequently, many potential lenders are interested in lending against industrial properties. In addition, the subject property was in an excellent location close to main arterial routes and was in good shape, having undergone extensive renovations in recent years. On the negative side, however, the building was occupied by a single tenant rather than a diversified set of tenants, which can represent a potential risk of having to rely on the success of one tenant's business for uninterrupted cash flow. Single tenant properties are often classified by lenders as "special use", which can be a code word for higher risk and



therefore higher pricing and more onerous financing conditions. In addition, the current lease was to expire in late 2008, which meant that there was only about 18 months left to go before renewal options could be exercised. This represented another potential risk to the lender.

"... a \$600,000 increase over the existing mortgage."

Solution:

To alleviate the lender's concern regarding the single tenant risk, the tenant's parent company covenants were provided. This assured the lender that the publically-listed parent was behind the lease contract. The financial strength of the parent company, which was easily verifiable from the corporate and financial information available on its website, was definitely a plus in this mortgage application. In addition, to mitigate the risk associated with the short remaining term to lease expiry, we provided a detailed story about the relationship between the lessee and the lessor. The landlord (lessee)

founded a distribution enterprise years ago and sold the company to the parent of the current tenant (lessor). The building owner was still involved in the business as a key employee of the merged company and it was extremely unlikely that the parent company would decide to relocate in favour of another facility upon expiry of the current lease. The selected lender was satisfied with this explanation, and offered a term sheet with \$3 million of authorized loan amount representing a \$600,000 increase over the existing mortgage. The proposed pricing was Government of Canada bond yield plus 125 basis points, which represented savings to the borrower of approximately \$30,000 net of the switching costs, compared to the renewal offer by the existing lender. ■

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